



CHEMONICS INTERNATIONAL INC.

## NICARAGUA: ASSESSMENT OF TRADE AND INVESTMENT BARRIERS

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## SECTION I

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### Objectives and Methodology

#### A. Objective of the Assessment

The *objective* of the Trade and Investment Barriers Assessment is to explore ways through which Nicaragua can take full advantage of CAFTA and other new market opportunities as a way to foster accelerated growth and increase employment in the short and medium term. A progressive and modern export strategy is crucial to increase export flows and improve the overall competitiveness position of the country. Given the small size of the local economy, export growth offers the only sustainable avenue to create jobs and improve the living conditions of the population. The present report identifies key economic reform policies that impact the business and export climate and suggests a sound approach to *policy formulation* and *policy implementation* conducive to higher trade level and new economic opportunities for the country. The *end goal* is to facilitate the creation of new trade-led economic opportunities conducive to accelerated economic growth and job creation in Nicaragua.

#### B. Work Methodology and Activities

To achieve the stated objective, several activities were carried out by an international consultant which were directed at obtaining information to:

- Review secondary trade statistical available in the country (Central Bank, MIFIC, others),
- Review the National Development Plan approach to increase trade and exports in Nicaragua (including the current re-engineering work done at the Center for Export and Investment—CEI),
- Conduct interview with people involved in the export sector (producers, buyers, customs brokers, banks, regulating agencies, etc.) to identify bottle necks and policy options to increase the country trade flows in the short to medium term,
- Meet with government's authorities to better understand the current efforts to improve Nicaragua's exports,
- Identify current incentive/disincentive framework to export and explore avenues to improve it.

Three techniques were used to develop the information required for the business and investment barriers assessment:

1. Focus group
2. In-depth interviews
3. Consultation of secondary sources

They were used as follows:

1. Focus Group

- Session-workshop with representatives of government departments related to the Nicaraguan export sector: MIFIC, MARENA, CEI, CNPE, CETREX, DPI-MINREX, and the CAFTA SME Advisor.
- Session-workshop with representatives of the private sector, services, and cooperation: COMIPyME, CARANA Corp., ASLASA, IICA Consultant, and a USAID representative.

2. In-depth interviews

- Representatives of the Public Sector: Central Bank, CNPE, and Government Advisors.
- Representatives of the Private business sector: COSEP, Western Union Group.
- Representatives of the Financial Sector: BANCENTRO and FINANCO.
- Representatives of the purchasing Sector: LAFISE Group – Agricultural Stock Exchange.

3. Consultation of secondary sources

- Proposal for National Development Plan. Government of Nicaragua.
- Foreign trade databases. Central Bank.
- National Account and Foreign Trade Statistics. Central Bank.
- Document on Design and Implementation of the National Export Promotion Strategy. MIFIC.
- Oportunidad: Project Implementation Unit for the Facilitation of Trade, Investment, Business, and Employment in Nicaragua. SECEP.
- Specialized Journals.

After the techniques were used to obtain the information, it was systematized (Chapter II). We start off by presenting a brief description of the structural aspects of the Nicaraguan export sector. We then present the results of the work, using problem-solution matrices to identify the principal problems facing the Nicaraguan export sector and the proposals for resolution envisioned by the various expert authorities, broken down into three levels: businesses, institutions, and country.

1. Problem-solution matrix (Businesses)
2. Problem-solution matrix (Institutions)
3. Problem-solution matrix (Country).

## SECTION II

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### Assessments and Analysis

#### 1. Background on the Nicaraguan Export Sector

The Nicaraguan export sector, represented by approximately 1000 exporters, has the following characteristics:

- Concentration of Markets

The dependency and concentration of the export recipients generate high vulnerability to technical trade barriers, price fluctuations, and the economic cycles of Nicaragua's principal trading partners. This statement is proven statistically by the fact that exports from Nicaragua are strongly concentrated in 4 markets which receive 70% of all its exports:

USA 33%

El Salvador 17%

Germany 12%

Costa Rica 8%.

- Concentration of products

Some 61.4% of all Nicaraguan exports are represented by just 6 products: coffee, beef, lobster, shrimp, sugar, and peanuts. The six products are essentially agricultural, with a low level of processing and incorporation of added value.

The manufacturing or industrial sector is not well represented in the top 20 export products: cheese, ceramics, instant coffee, baked goods and cookies, petroleum oils, leathers, and prepared hides. These products do not represent more than 9% of all exports.

The Central Bank's foreign trade statistics do not include information on the Textile sector's exports, which, according to the background information that has been gathered, would be on its way to becoming an important productive source of jobs and income.

- Concentration of companies

Some 52.2% of all exports are concentrated in 20 companies, mostly in the agricultural sector.

- Index of Apparent Economic Openness

Shows that the relative weight of the external sector in relation to the GDP is 61%, one of the highest in the region. But this is explained by the fact that imports are three times higher than exports, resulting in a serious Balance of Trade deficit:  $X-M = \text{US\$ } -1,162.7 \text{ million}$ .

The following table shows the changes in the Nicaraguan export sector for the period of 2000-2003. The exporters, for the 10 principal export products, are represented by 314 companies, which account for 75% of the country's total exports. A downward trend in the value of the exports was noted for the period.

**NICARAGUA: CHANGE IN TOTAL EXPORTS  
10 PRINCIPAL PRODUCTS**

	2000		2001		2002		2003	
	MUS\$	No. Companies	MUS\$	No. Companies	MUS\$	No. Companies	MUS\$	No. Companies
1.- Coffee	160,867	36	103,292	42	73,554	44	85,547	41
2.- Meat	52,241	9	65,612	7	78,000	7	83,833	8
3.- Lobster	57,452	23	38,124	13	45,464	17	36,110	14
4.- Gold	29,291	2	29,877	4	35,048	4	34,980	4
5.- Shrimp	54,282	48	38,354	49	33,095	58	32,984	57
6.- Peanuts	29,781	23	30,717	27	24,154	20	28,426	22
7.- Livestock on the Hoof	24,898	18	27,605	23	23,311	25	25,884	30
8.- Sugar	41,318	5	49,108	6	28,641	4	25,675	4
9.- Cheese	19,327	58	12,043	44	13,424	61	20,484	56
10.- Beans	6,345	39	12,989	38	18,210	67	20,079	78
<b>10 Products Total</b>	<b>475,801</b>	<b>261</b>	<b>407,721</b>	<b>253</b>	<b>372,901</b>	<b>307</b>	<b>394,002</b>	<b>314</b>
<b>Total Exports</b>	<b>642,776</b>		<b>605,005</b>		<b>561,004</b>		<b>604,548</b>	
<b>GDP (US\$ each year)</b>	<b>3,951,224</b>		<b>4,016,729</b>		<b>4,006,561</b>		<b>4,134,559</b>	

Source: Central Bank of the Republic of Nicaragua.

## 2. Problem-solution matrix (Businesses)

Below we present the major problems facing businesses vis-à-vis exporting and the potential solutions envisioned by the actors who were consulted:

Problems	Proposed Solutions
⇒ <i>Business' pessimistic outlook affects its tendency to export (volume and quality). Most Nicaraguan businesses are small.</i>	<ul style="list-style-type: none"> <li>- Develop Technical Assistance Plans focused on SMEs to improve their productive capacity: quality, processes and develop products in accordance with the needs of the national and international markets.</li> <li>- Target the technical assistance programs to: sectors, businesses, and products that are prioritized with a country focus.</li> <li>- Direct training programs at business management, strengthening the business in terms of the markets it reaches.</li> <li>- Support the business owners' associativity to increase the amount of commercialization, reach market niches, and negotiate better prices.</li> <li>- Develop and improve public and private services for SMEs, train trainers, perfect techniques, and consultants who provide services to the businesses.</li> <li>- Develop incentives to attract foreign businesses and investments that promote and facilitate the transfer of technology to the SMEs, generating productive chaining and development of suppliers.</li> </ul>
⇒ <i>High costs of production in terms of energy consumption and use of basic services.</i>	<ul style="list-style-type: none"> <li>- Promote projects to attract investments (international bidding) for the development of cheaper alternative energy sources (e.g., wind).</li> <li>- Discriminate positively with respect to energy prices, decreasing them for the sectors-businesses-products to be promoted.</li> <li>- Develop programs to support SMEs, aimed at reducing the high cost of doing business.</li> </ul>
⇒ <i>SMEs do not have easy access to financing from Banks and Financial Institutions for productive and export activities (security interest).</i>	<ul style="list-style-type: none"> <li>- Generate appropriate tools and/or means directed at financing SMEs. Study successful experiences of other countries, such as El Salvador and Chile.</li> <li>- Develop associativity for access to credit, the establishment of savings clubs among groups of producers and/or related companies. Move forward with implementation of Business Development Funds that finance specific business projects.</li> <li>- Establish a Guarantee Fund to support business products of SMEs requiring fewer guarantees than the banking system now requires.</li> <li>- Develop public or private support services for the formulation of projects in accordance with the requirements of the Banks and Financial Institutions.</li> <li>- Coordinate the institutions for the support of productive development and promotion of exports with banks and financial institutions, for the design of financial products such as: export insurance, support for the study of clients abroad, and soft credit to finance commercial missions and knowledge of technological experiences abroad.</li> <li>- Improve business owners' access to information about bank instruments aimed at production-exportation development.</li> <li>- Direct financial management (savings, administration) training programs-actions toward SME owners.</li> </ul>
⇒ <i>Clear technological backwardness. Rudimentary traditional production is not competitive.</i>	<ul style="list-style-type: none"> <li>- Direct the existing technological development funds toward a production-export development policy.</li> <li>- The technological funds should be aimed at supporting businesses in areas such as: certification of products and processes, product development, improvement of the production and product presentation (packaging) systems.</li> <li>- Establishment of Technological Centers associated with sectors, businesses, and products considered strategic for economic growth.</li> </ul>
⇒ <i>Insufficient development of sectoral or complementary business cooperation (associativity)</i>	<ul style="list-style-type: none"> <li>- Develop information and training programs for business owners, producers, and marketers on the advantages of associativity in terms of: producing jointly to reduce costs, selling jointly to improve prices, contracting jointly for technical assistance services to reduce costs, accessing the international market jointly to decrease risks, etc.</li> </ul>

Problems	Proposed Solutions
	<ul style="list-style-type: none"> <li>- Establish Export Consortia with business groups, producers, and/or marketers that are in a position to export and provide them with the necessary help (training, advisory assistance, technical assistance).</li> <li>- Develop associativity with a focus on aggregating or supplementing supply (products), in order to tap into international marketing channels.</li> <li>- Develop forums in which business owners, producers, marketers who are farther along in the process can transmit their experience to others. Encourage the dissemination of success stories.</li> </ul>
⇒ <i>The businesses' low level of commercial training, planning, and promotion for accessing new markets.</i>	<ul style="list-style-type: none"> <li>- Develop training, technical assistance, and advisory assistance programs to strengthen the export business sector (sectors, companies, and products in terms of supply available for export and market demands).</li> <li>- Support businesses in formulating export programs.</li> <li>- Train business owners in export processes and procedures.</li> <li>- Train business owners in how to conduct business in the principal target markets, creating an export mentality.</li> <li>- Study strategic markets</li> <li>- Distribute and disseminate information on strategic markets and opportunities to access other sources of financing for businesses.</li> </ul>
⇒ <i>Incipient export mentality (conservative mentality in terms of agricultural production, failure to seek new modes of production, generate higher added value, crop substitution).</i>	<ul style="list-style-type: none"> <li>- Massively reproduce, report, and disseminate success stories in the agricultural sector (restructuring, substitution of crops that are more profitable, more in demand, generation of added value, etc.), initiatives to improve the agricultural producer's conservative mentality.</li> <li>- Train the agricultural producer in agribusiness, to think about the market, when deciding what to plant. Promote transformation of the producer into an agricultural businessperson.</li> </ul>
⇒ <i>Marketing weaknesses. The exporting and potentially-exporting business owners do not know the market, nor do they use "market intelligence" tools. Need for more specialized training.</i>	<ul style="list-style-type: none"> <li>- Needs differ with the size of the businesses (large, medium, small, and micro); support tools must take those differences into account.</li> <li>- Develop "market intelligence" public services, coordinating the CEI's activity with the Ministry of External Relations (Embassy network) to benefit the exporters. Strengthen interinstitutional synergy.</li> <li>- The CEI should centralize and publicize the existing information sources and train the business owners in how to access them. Effectively diagnose the business owners' needs and develop services in accordance with their demands. For example, develop actions to deal with the fact that many business owners are not familiar with the list of products included in CAFTA.</li> <li>- Develop "market intelligence" that promotes the generation of links abroad, finding potential clients, marketing channels, market niches; information that helps with the businesses' management decision making.</li> <li>- Strengthen the CEI's role as a center of market intelligence, coordinated and connected with the business owners.</li> </ul>
⇒ <i>Customs (border with Honduras) provides service until 5:00 p.m., exports become more expensive if they arrive late. The same with the Guatemala and Mexico borders; they don't work on holidays.</i>	<ul style="list-style-type: none"> <li>- Negotiate with Customs for 24-hour service.</li> <li>- The Nicaraguan Customs Service should coordinate with those of Honduras, Guatemala, and Mexico to facilitate the flow of products across the borders.</li> </ul>



### 3. Problem-solution matrix (Institutions)

Below we present the major problems facing national production-export development at the institutional level and the potential solutions envisioned by the actors who were consulted:

Problems	Proposed Solutions
⇒ <i>Lack of a shared public-private vision for the development and implementation of a production-exportation development policy.</i>	<ul style="list-style-type: none"> <li>- Develop joint, public-private work vision that encourages the successful implementation and execution of the National Development Plan.</li> <li>- Meetings and seminars including appropriate representatives of the public and private sectors to build a shared vision of a production-exportation development policy.</li> <li>- Joint review of the existing regulations developing new products (imported supplies). Agreement by both on measures for speeding up processes, review of phytosanitary obstacles to importing supplies for export, based on the expert opinions of recognized specialists.</li> </ul>
⇒ <i>Distrust between the public and private sectors.</i>	<ul style="list-style-type: none"> <li>- Strengthen the work of the National Export Promotion Commission (CNPE, Spanish acronym); the private sector evaluates its work positively. Its activity should be more periodic and based on a structured work agenda.</li> <li>- The CNPE should promote the establishment of work forums that help decrease the distrust between the public and private sectors. Seek to generate synergies between them to resolve specific, isolated problems that affect the export sector, such as problems related to the non-technical, arbitrary barriers of countries that receive exports (defense of the exporter).</li> </ul>
⇒ <i>Limited coordination and organization among the institutions supporting business development. Duplication of support actions.</i>	<ul style="list-style-type: none"> <li>- Establish and strengthen interinstitutional communication and coordination forums that help generate a shared vision in terms of strategy and a segmentation of roles in terms of specialties and actions.</li> <li>- The CNPE should become an operating, dynamic work roundtable concerned with the construction and implementation of Nicaragua's export strategy. It should establish and implement the work agenda between the public and private sectors.</li> <li>- Coordinate the work of the various public entities to prevent unnecessary duplication of effort in similar projects. Seek complementarity. One institution should lead this process.</li> <li>- Develop a record of projects executed, in execution, and to be executed, by the various public and private entities that support production-exportation development to avoid duplication of effort.</li> <li>- Promote coordination of the work of the General Directorate of Economics and Treaty Administration with the exporters to ensure expeditious access for Nicaraguan products to the markets with which treaties have been signed.</li> </ul>
⇒ <i>There are no clear responsibilities in most cases, but there is competition to achieve prominence and obtain resources.</i>	<ul style="list-style-type: none"> <li>- The MIFIC is responsible for generating mechanisms of organization (work roundtables) and/or institutionality that coordinate the various financing funds with the institutions that operate them in keeping with a plan agreed to with the private sector.</li> <li>- Strengthen the work of the National Export Promotion Commission; the private sector evaluates its work positively. Its activity should be more periodic and based on a structured work agenda. It should become a work roundtable concerned with the construction and implementation of Nicaragua's export strategy (establishment of a work agenda).</li> </ul>
⇒ <i>Limited public resources, but the actors agree that they do exist and</i>	<ul style="list-style-type: none"> <li>- Improve the coordination of institutionality to improve efficiency and effectiveness in the use of existing resources.</li> </ul>

Problems	Proposed Solutions
<i>are available. However, not everyone is aware of their existence.</i>	<ul style="list-style-type: none"> <li>- Appropriately inform business owners of the existence of resources for the improvement of their capacities or the strengthening of their businesses. For example, the business owners are generally unaware of the existence of a US\$ 5 million Guarantee Fund managed by a Nicaraguan bank.</li> <li>- Evaluate the feasibility of establishing a banking system to coordinate cooperation funds in line with Nicaragua's strategic objectives as laid out in the National Development Plan.</li> </ul>
<i>⇒ Low level of implementation of the National Development Plan; it has not started to function; a base of social support must be generated.</i>	<ul style="list-style-type: none"> <li>- Generate social agreement among all sectors and actors involved in order to execute it. Generate social support for the solutions it proposes.</li> <li>- Focus the National Plan on specific actions by regions of the country, prioritize the actions to be pursued and invested in. For example, development of the highway infrastructure in accordance with the national economy's needs and priorities.</li> <li>- Target productive investment to sectors (clusters), businesses, and products that are prioritized and considered strategic for development and economic growth.</li> </ul>
<i>⇒ Lack of programs-tools targeted to Nicaragua's production-exportation development.</i>	<ul style="list-style-type: none"> <li>- Implement and execute the National Development Plan, which includes the tools and programs necessary for production-exportation development.</li> <li>- Coordinate the action of the cooperation funds directed at production exportation development, in order to target them to sectors-businesses-products-markets defined as strategic by the National Development Plan.</li> </ul>
<i>⇒ There are programs directed toward technological innovation, but they are not dynamic.</i>	<ul style="list-style-type: none"> <li>- De-bureaucratize the operation of the assistance fund for technological innovation to enable business owners to access it and improve their processes and products.</li> <li>- Promote coordination of the technological cooperation funds based on the common objective of Nicaragua's production-exportation development.</li> <li>- The technological funds should be aimed at supporting businesses in areas such as: certification of products and processes, product development, improvement of the production and presentation (packaging) systems.</li> </ul>

#### 4. Country Level:

Below we present the major problems facing the country as a whole vis-à-vis the development and implementation of a production-exportation development policy and the potential solutions envisioned by the actors who were consulted:

Problems	Proposed Solutions
⇒ <i>Deficient internal and external image of the country; we do not "sell" Nicaragua.</i>	<ul style="list-style-type: none"> <li>- Develop marketing campaign aimed at improving the country's internal and external image. Show Nicaragua as a growing country which exports, which promotes and develops investment opportunities. Focus the campaign on the target public: current clients, potential clients, investors, tourists, etc.</li> <li>- Integrate the subject of production-exportation development into the educational system to help generate a new "culture-vision" of Nicaragua for the new generations.</li> <li>- Publicize, nationally and internationally, the positive things that are being done, show successful experiences in restructuring, development of new products, opening up of new markets, etc.</li> </ul>
⇒ <i>Deficient, poor-quality infrastructure: ports, airport, roads, etc.</i>	<ul style="list-style-type: none"> <li>- Promote projects and incentives to attract investments (international bidding) aimed at improving the infrastructure: inspection station for agricultural products for export, road construction, based on systems of time-limited concessions.</li> <li>- Target the investments in accordance with priorities established in the National Development Plan. Improve highway interconnectivity between the Atlantic and Pacific coasts and the country's interior regions.</li> <li>- Target investment to infrastructure in accordance with CAFTA needs. One example would be the Atlantic port project, which will require ensuring highway connectivity and other related services.</li> </ul>
⇒ <i>The lack of a Nicaraguan port on the Atlantic makes exports less internationally competitive and makes imports more expensive.</i>	<ul style="list-style-type: none"> <li>- Evaluate the technical-economic feasibility of building the Atlantic port. This evaluation should also take into consideration the cost of the additional infrastructure to be developed in parallel with port construction (roads, services, storage, etc.).</li> <li>- Build the Atlantic port.</li> </ul>
⇒ <i>Financial Instruments do not focus on supporting the export sector. The businesses are not familiar with the existing instruments.</i>	<ul style="list-style-type: none"> <li>- Generate guarantee funds to support business activity, in terms of production and promotion of exports.</li> <li>- Publicize, in the business sector, the business focus of the national banking system, the existing financial instruments, and the fact that they can be used by business owners.</li> <li>- Promote the training of business owners by the financial banking system for the preparation of business plans in accordance with the sector's requirements.</li> <li>- Promote the holding of seminars and meetings to provide information about access to the financial instruments and share success stories.</li> </ul>
⇒ <i>Limited exporter base</i>	<ul style="list-style-type: none"> <li>- Expand the national exporter base, incorporating the SMEs with export potential.</li> <li>- Compile and organize the results of the various diagnoses of increasing the supply available for export being carried out with IDB support (MIFIC) and JICA (Ministry of Agriculture) in order to coordinate and target support actions to businesses that are in a position to export.</li> <li>- Target production-exportation development program activity (training, advisory assistance, and technical assistance) to businesses with export potential.</li> </ul>
⇒ <i>Limited availability of specialized services. Nicaraguan experts have little training. Services are imported from neighboring countries.</i>	<ul style="list-style-type: none"> <li>- Target INATEC's activities to the training of Nicaraguan experts and specialists who will support the businesses' production-exportation development.</li> <li>- Develop programs and grants in conjunction with universities and technical institutes to train human resources and thus strengthen services to businesses.</li> <li>- Develop a record of the exporters' most recurring needs to establish</li> </ul>

Problems	Proposed Solutions
	<p>ad-hoc curricular training to address the needs of the labor market and businesses.</p> <ul style="list-style-type: none"> <li>- Hire experts abroad to transfer [knowledge] and train Nicaraguan experts, in accordance with [the needs of] priority productive sectors, to support the improvement of processes and products in keeping with the foreign markets' requirements.</li> </ul>
⇒ <i>Lack of technical institutes focused on "strategic" export sectors (businesses, products, and markets).</i>	<ul style="list-style-type: none"> <li>- Establish technical institutes to support sectorial, business, and product development, improving Nicaragua's competitiveness in its process of opening up foreign trade.</li> <li>- Refocus INATEC's activity toward the establishment and funding of technical institutes to enable the companies to: train their staffs and specialists, improve processes and products, and have support for the research and development of new modes of production.</li> </ul>
⇒ <i>Lack of services aimed at the improvement, analysis, and certification of products. Few laboratories; the companies have analyses performed abroad. The business owners are unaware of the Nicaraguan laboratories.</i>	<ul style="list-style-type: none"> <li>- Evaluate and implement alternatives for strengthening the processes of development, certification, implementation, oversight, and dissemination of technical standards.</li> <li>- Emphasize the laboratories' performance and capacities in order to establish accreditation and control mechanisms.</li> <li>- Inform the various organizations, businesses, marketers, and private entities in general of the existing capacities and establish technical committees to improve the system.</li> <li>- Implement improvements in the mechanisms for certification and verification of origin, in particular in the customs services and the certification organizations, in order to improve the efficiency of service to the private exporting sector.</li> <li>- Evaluate the performance of the current mechanisms and make recommendations for perfecting them.</li> </ul>

## SECTION III

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### **Conclusions - Recommendations**

The framework of proposals and recommendations stemming from the assessment is appropriately developed in the problem-solution matrices; however, we feel it is necessary to place special emphasis on the aspects presented below.

Chapter I of the proposal for the National Development Plan of Nicaragua (NDP) develops the following premise: "If we want to increase the rate of growth of the GDP based only on public investment, Nicaragua will become fiscally unsustainable. This will happen unless the public investment promotes the growth of exports and increases private investment. There are two reasons for these results. First, exports have a positive impact much greater than private and public investment on the economy's rate of growth. Second, a higher and sustained rate of public investment cannot be maintained if that investment is inefficient and does not bring about enough GDP growth to ensure that the additional taxes generated by GDP growth compensate for the outlays produced by a higher rate of public investment."

In accordance with the NDP and the results of this assessment, the Nicaraguan State should encourage the following actions for the benefit of national economic growth:

1. Construct a production-export development policy the objective of which is to promote Nicaragua's economic growth by improving the businesses' productive capacities and increasing exports. To do this, the sectors-businesses-products-markets on which action will be focused must be defined.
2. Implementation of the policy should include support for the process of internationalizing the businesses by generating the necessary and sufficient conditions to allow them to operate efficiently in the world of international business and to improve their levels of competitiveness: financial, customs, tax, productive development tools and business promotion tools, etc.
3. The Nicaraguan public and private sectors understand the situation and the challenge. So it is necessary to encourage entities where the two can come together and coordinate, providing appropriate social support for the NDP and ensuring its successful implementation, since the incessant and continuous process of international globalization has given the economies more external "visibility" and raises, for both the countries and their businesses, significant challenges and requirements in terms of productivity and competitiveness.
4. The actions should be aimed at increasing the number of businesses that export goods and services, incorporating more added value into the products, diversifying production, conquering markets for Nicaraguan products, adjusting the supply available for export in accordance with the foreign markets' demands, and helping facilitate the positioning of the businesses abroad by developing marketing plans for the foreign markets and encouraging strategic alliances with businesses at the international level.

5. The coordination of strategies and lines of action can be effective only with the availability of effective implementation tools that promote a new business spirit in Nicaragua and, above all, support the successful insertion of Nicaraguan businesses into the regional and international markets. In this respect, great progress has been noted through the proposal of the OPORTUNIDAD Program developed by the SECEP, which starts from the premise that “without innovative businesses and business owners there will be no productive jobs in Nicaragua and it will not be possible to decrease poverty in a sustainable manner.” This program can be used as a fundamental basis of support for the development and successful implementation of the production-export development policy under the broader NDP framework. The Program should propitiate the design of instruments and mechanisms for supporting the small and medium enterprise sector and the entrepreneurial sector, focusing on further developing these sectors, providing institutional strengthening for the businesses and entrepreneurs, promoting product development, in addition to all the other elements inherent to market demand.
6. For Nicaragua, the challenge of developing export markets demands an appropriate policy for improvement of the productive system, including the implementation of technology transfers to ensure that these products meet all the necessary technical specifications.
- The minimum areas of state support that must be covered and be available for all the businesses that participate in the desired effort are:

<ul style="list-style-type: none"> <li>• Quality</li> <li>• Design</li> <li>• Commercialization</li> <li>• Marketing</li> <li>• Product Development</li> </ul>	<ul style="list-style-type: none"> <li>• Development and acquisition of new technologies.</li> <li>• Training of Human Capital</li> <li>• Establishment of Technical Centers or Institutes</li> <li>• Computer science</li> <li>• Environment.</li> </ul>
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7. In general terms, an export promotion policy should influence the businesses in three phases:
- Phase 1: Motivating the businesses to join Nicaragua’s export efforts by learning about business opportunities abroad and the advantages of accessing them.
  - Phase 2: Developing tools in accordance with the businesses’ needs and ensuring that the businesses have access to help through appropriate assistance programs. This means providing appropriate services to the businesses that need them at the proper time.
  - Phase 3: In general, covering the businesses’ needs when their products are introduced to foreign markets. This is an extension and intensification of the activities described in Phase 2. The most critical aspect is always providing the required information and the knowledge necessary to successfully deal with the export process.

It is absolutely necessary to recognize that the promotion of exports must be strictly coordinated by the government and the businesses in order to achieve success.

8. As a result of the present assessment, the development and implementation of the following lines of work and support for the businesses is proposed:

**A. Basis for a productive and Export Driven Development Policy**

The Productive and Export Driven Development Policy should aim to stimulate an increase in volume of exports that will result in overall economic growth for the country. For this to occur, it is necessary to provide assistance to the business sector with the objective of improving their marketing approaches, in particular to foreign markets, improving productive capacity and product presentation, helping to identify foreign investment opportunities, and promoting investment for the country for the advancement in the development of the exporting proposals from the business sector, and fomenting strategic alliances with international businesses. The Policy should propose a strategy for accessing and entering new markets for national products allowing for adjustments to the export proposal according to the requirements posed by the markets and the consumers, making sure to prioritize the goods and services that take into account the greatest value added for the nation. The Policy should support the profundity of the integration process with bordering countries and with CAFTA, taking advantage of the distinct fiscal and productive potentials of certain regions relative to the neighboring countries. Consequently, the political axis should focus on working with the export business sector, intermittent exporters, and potential exporters.

The challenges that restrict and increase the difficulty of market entry requires an adequate policy that targets improvements in existing productive systems, that integrates a technology transfer component to ensure that these products have all the necessary technical specifications of said market.

The support and backing of the national government in conjunction with active private sector participation are fundamental elements for success. In addition, establishing an adequate and inter-active mechanism that links the government and the private sector is a basic requirement. The following examples of export promotion strategies from Mexico, Chile, Spain, and Taiwan, amongst others, are testimony of efficient and productive association; consensus based working systems that are worth considering.

It is necessary to understand that, in today's technologically driven world, the dynamics of the markets have transformed technology into an essential strategic tool for capturing markets and furthermore in ensuring permanence. Nevertheless, it is important to note that having state of the art and cutting edge technology in no way serves as a guarantee for success. Competitiveness is not reached or measured by the amount spent on technology. Modernizing businesses is not only a matter of money but also a matter of intelligence and efforts in guiding the efficient use of resources.

It is also false to assume that technological dominion is limited to the productive process. The organization of the market, transportation, distribution and client based information management has evolved into key areas for innovation and technological change. The four technologies (Product/Process/Organization/Marketing) form part of the spectrum of key mechanisms and instruments for the modern business.

A fundamental concept, in the generation of competitive capacities, for the implementation of a production and export driven policy is that of the **relationship between businesses** for confronting the challenges that, with difficulty, can be assumed by businessmen in an individual manner. The association and cooperation of SMEs, in national and international markets, helps overcome the disadvantaged of economies of scale and the integration of production chains helps to engender competition with improved conditions.

In synthesis, government support of the development of a productive and export driven strategy can be defined as: **“The policies and measures that tend to result and motivate export related activity, at the business level, at the industrial sector or as the national image,” constitute the basis for the national policy for export promotion.** In which, the role of the State is crucial in the process of creating an enabling legal and economic framework and in providing assistance and guidance to the business sector’s efforts in adapting their productive structures, in perfecting their production chains and lines of production, and in incorporating innovative methods, modern approaches, and available technology for management control, under co financing schemes (Technological funds and Guarantee Funds).

In summary, it can be stated that these policies and mechanisms should focus on operations at three levels:

1. Modeling the existing economic and business structures.
2. Identifying the specific sectors with exporting potential
3. Assisting businesses achieve a presence in foreign markets

In this way, the successful implementation of a productive and export driven policy should generate impact on:

- Increase in national exports
- Diversification export markets and products
- Integration of national higher value added exports
- Incorporation of a larger number of small and medium enterprises in exporting and/or in the production chain

For this to occur, the following is necessary:

1. Augment the impact of the actions taken by public and private institutions in the national exporting structure, incorporating- in a more dedicated fashion- the small and medium enterprises. For which it is fundamental to propitiate an increasingly active role for the CNPE and the CEI, and to strengthen their relationship with the SECEP.
2. Strengthen the development of a “client oriented service policy,” that will enable development and that will cater to the disposition entrepreneur’s innovative instruments (information, co financing, technical assistance, advising, training, etc.) and “tailor made” for the users, differentiated according to the necessities and problems encountered during incursion into international markets. The OPORTUNIDAD initiative could serve as a liaison between the technical-articulator of the public and private sector efforts, with a sector-business-product-market development focus, that is founded on the basis of a co financing system, that, in turn, is founded on the entrepreneurial commitment to assume this task.



The following activities should be executed:

- Campaign to position a national image, at the national and international levels (coordination between the CNPE-CEI, CEI, MIFIC, Ministry of Foreign Relations, SECEP and businesses);
- Diffusion of national products and services to foreign markets (coordination between the CNPE-CEI, CEI, MIFIC, Ministry of Foreign Relations);
- Assistance to businesses for the development and implementation of their export promotion strategies (technologic programs and strategic orientation);
- Divulge, at a national level, the opportunities and characteristics presented by foreign markets (market intelligence, coordination with the Ministry of Foreign Relations);
- Provide technical information on procedural matters, transactions and regulations that are applicable to exports (MIFIC, CNPE, SECEP);
- Organize and coordinate commercial missions to foreign countries and while in foreign countries, promote visits of commercial mission to the country (CEI, organizations, and businesses);
- Organize and coordinate national participation in study tours and trade shows, expositions, or commercial events that take place in foreign countries (CEI, organizations, and businesses);
- Drive export focused entrepreneurial training programs –“exporting conscience and culture”- (coordination between the CNPE-CEI, CEI, MIFIC, Ministry of Foreign Relations);
- Develop commercial offices and representative offices in strategic markets (coordination between the CNPE-CEI, CEI, MIFIC, and Ministry of Foreign Relations).

According to what has been previously mentioned, the implementation of any program targeting improved capacity of the Nicaraguan export sector, should incorporate the following:

**1. INFORMATION and TRAINING of businesses becoming involved in the export process**

Group activities, be they courses, workshops, or others that address subjects related to production-export development and the export process per se. Also, the development of informational material related to the dissemination of tools to support small and medium-sized exporters and potential exporters. Develop and update manuals to support export activity, emphasizing the economic complementation agreements that have been signed and the changing conditions of the international markets.

**2. Market PROSPECTING**

Prospecting means carrying out activities aimed at improving capacities in terms of market intelligence, the research of new and emerging markets and niches in known markets that include the promotion of new products, as well as discovering needs for adjustment of the supply available for export to target market requirements (pre-commercialization). The objective of the market prospecting programs is to generate knowledge within the businesses, enabling them to make concrete decisions with respect to specific international markets and the best way to access them.

Consequently, the resources devoted to prospecting should be used to carry out activities and processes prior to the commercialization of products, which requires knowledge of the market and for which it is necessary to identify opportunities, discover specific needs and interests, become familiar with clients, identify marketing channels, prices, tariffs, pre-tariff requirements, and consumption habits, analyze the competition, and so forth.

The businesses in this phase have characteristics such as:

- ⇒ Little or no knowledge of the local supply or foreign supply present in the market of interest,
- ⇒ Little or no knowledge of the characteristics of the demand,
- ⇒ If there is no demand for the specific supply, is it possible to adapt the supply to the market's requirements or create the need for it?
- ⇒ Little or no knowledge of the strengths and weaknesses of the businesses' supply in relation to the supply present in the market of interest.
- ⇒ Little knowledge of the key variables in the export process, tariffs, pre-tariff requirements, laws, taxes, etc.
- ⇒ Little or no knowledge of the distribution and marketing channels,
- ⇒ Market share and sales curve at an incipient level.

### **3. Market PENETRATION**

Penetration refers to the activities carried out by current and potential exporters consistent with the decision to enter a certain market with specific products.

The decision to penetrate a market entails, for the businesses, having carried out activities related to the previous phase (prospecting) which confirm the opportunity to develop and interest in developing a certain market/product.

Consequently, the resources available for penetration should be used for tasks, activities, and processes aimed at introduction into new markets or introduction of new products, creating awareness of the product, testing of products in first adapters.

The companies in this phase have characteristics such as:

- ⇒ They already know about and have successfully analyzed the technical-economic feasibility of exporting to this market, but the supply's market share is incipient.
- ⇒ Market studies and/or tests have shown that the supply can be successful in the launching of the supply [sic] and that an aggressive policy, aimed specifically at certain segments, emphasizing key characteristics of the product, can improve this [market] share.
- ⇒ The sales curve is at an incipient level, as is the market share.

### **B. PERMANENCE in the Markets**

Permanence means activity carried out by current exporters who decide to develop and consolidate a market [or] maintain and/or increase their levels of participation

and sales in the market. The businesses commercialize in the foreign markets and have a well-defined commercialization strategy.

The strategies aimed at increasing or maintaining market share may be in terms of price or strengthening the position of the exporters' supply (product quality, etc.).

The decision to remain [in] or develop the market/product entails, for the small and medium-sized businesses, having carried out activities related to the previous phases (prospecting and penetration) which confirm the opportunity to remain in and interest in remaining in a specific market.

Consequently, the available resources should be used for tasks, activities, and processes aimed at ensuring and consolidating the business' position in the foreign market. These can be directed at: research and development, logistics, alliances for the purchase of raw material, production, distribution involving inserting or keeping the business in the target market, and improving the businesses' management capacity.

9. The need to achieve competitiveness entails the availability of tools appropriate to the businesses' levels of Management, Organization, and Techniques. Unfortunately, at the level of small and medium-sized businesses, in many Latin American countries these goals are not achievable because there is no government support program that efficiently covers these areas. This has generated, in most of the countries, the creation of specific support tools that do not jeopardize the provisions of the WTO and that have generated very positive results to the extent that those countries have conceived of and used them. The NDP entails the changes necessary for the development and implementation of an effective production-export development policy; the next step is ensuring [the availability of] the resources and the social support necessary for its implementation.

## ANNEX

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